

## Message Text

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PAGE 01 CAIRO 01217 01 OF 02 121230Z  
ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W  
-----127968 121235Z /11  
O 121221Z JAN 78  
FM AMEMBASSY CAIRO  
TO SECSTATE WASHDC IMMEDIATE 4137

C O N F I D E N T I A L SECTION 01 OF 02 CAIRO 01217

EXDIS

FOR ASSISTANT SECRETARY ATHERTON FROM AMBASSADOR

PASS AID FOR AA/NE WHEELER

E.O. 11652: GDS  
TAGS: PROG  
SUBJ: ADDITIONAL ECONOMIC ASSISTANCE FOR EGYPT

REFS: (A) CAIRO 980 (B) CAIRO 981 (C) CAIRO 01216

1. BY REF (B) WE ALERTED YOU THAT WE WERE LIKELY TO BE RECEIVING AN OFFICIAL REQUEST FROM DEPUTY PRIME MINISTER KAISOUNI FOR ADDITIONAL ECONOMIC ASSISTANCE FOR EGYPT. BY REF (C) WE ARE TRANSMITTING THE TEXT OF A LETTER RECEIVED FROM KAISOUNI ON JANUARY 10 IN WHICH THAT FORMAL REQUEST IS INCORPORATED. THIS CABLE IS INTENDED TO GIVE BACKGROUND ON THIS MATTER AND OUR COMMENTS ON IT.

2. FIRST INDICATION THAT GOE WAS CONSIDERING AN ADDITIONAL AID REQUEST CAME IN CONVERSATION ABOUT 10 DAYS AGO BETWEEN USAID DIRECTOR AND MINISTRY ECONOMY UNDER SECRETARY GAMAL EL NAZER. AT THAT TIME, EL NAZER STATED THAT GOE HAD RECEIVED IMPRESSION THAT MEMBERS OF CONGRESS FELT TIME WAS RIPE TO CONSIDER ADDITIONAL ASSISTANCE FOR EGYPT AND THAT IF GOE WOULD MAKE A REQUEST, IT WOULD RECEIVE STRONG  
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CONGRESSIONAL SUPPORT. EL NAZER SAID THAT UNDER PRESIDENTIAL INSTRUCTIONS, DEPUTY PRIME MINISTER KAISOUNI WAS PREPARING A LIST OF PROPOSALS FOR CONSIDERATION BY USG.

3. ON BASIS OF EL NAZER DISCUSSION, AMBASSADOR AND USAID DIRECTOR MET WITH KAISOUNI ON JANUARY 5 AND CONFIRMED THAT GOE WAS IN FACT IN MIDST OF PREPARATION OF A FORMAL REQUEST TO USG FOR ADDITIONAL

ASSISTANCE. AS INDICATED IN REF (B), BASIS OF GOE BELIEF THAT THERE WILL BE CONGRESSIONAL RECEPTIVITY TO SUCH A REQUEST EMANATED FROM MEETING OF AMBASSADOR GHORBAL AND MINISTER OF MANPOWER SAAD AHMAD

WITH SENATOR STONE DURING SAAD AHMAD'S RECENT VISIT TO THE UNITED STATES. KAISSOUNI ALSO CONFIRMED THAT DEVELOPMENT OF THE AID REQUEST WAS BEING MADE UNDER THE DIRECT INSTRUCTIONS OF PRESIDENT SADAT.

4. IN CONVERSATION WITH AMBASSADOR AND USAID DIRECTOR, KAISSOUNI DID NOT GO INTO SPECIFIC DETAILS OF WHAT GOE INTENDED TO REQUEST, EXCEPT TO INDICATE IT WOULD INVOLVE PL 480, CIP AND PROJECT ASSISTANCE, AND THE AMOUNT UNDER CONSIDERATION WAS DOLLARS 800 MILLION ADDITIONAL ASSISTANCE IN EACH OF THE YEARS 1978 AND 1979.

5. IMMEDIATELY AFTER THE FORMAL MEETING WITH KAISSOUNI, USAID DIRECTOR MET WITH KAISSOUNI'S COUNSELOR, FOUAD HUSSEIN. HUSSEIN SHOWED BROWN A DRAFT LETTER WHICH INCLUDED A SPECIFIC REQUEST IN THE AMOUNTS INDICATED ABOVE AND WHICH ENCLOSED A LIST OF ITEMS WHICH WERE DESIRED WITHIN THIS DOLLARS 800 MILLION AMOUNT FOR 1978. THE LIST DID NOT GIVE DETAILS ON WHAT WOULD BE INVOLVED IN A SECOND YEAR TRANCHE OF THE SAME AMOUNT.

6. USAID DIRECTOR TOLD HUSSEIN THAT OBVIOUSLY THE GOE WAS FREE TO TAKE WHATEVER ACTION IT WISHED IN MAKING AID REQUESTS. USAID DIRECTOR ALSO DID NOT DISAGREE WITH KAISSOUNI'S AND SADAT'S ASSESSMENT THAT

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THIS MIGHT BE A PROPITIOUS TIME FOR SUCH A REQUEST TO BE CONSIDERED BY THE CONGRESS. HOWEVER, USAID DIRECTOR SUGGESTED THAT WHATEVER MIGHT BE CONGRESSIONAL RECEPTIVITY, IT WAS HIGHLY UNLIKELY THAT CONGRESS WOULD APPROVE A REQUEST IN THE MAGNITUDE BEING SUGGESTED EITHER CONSIDER SCALING DOWN ITS FORMAL REQUEST OR SUBMIT A REQUEST WHICH DOES NOT DEFINE SPECIFIC AMOUNTS BUT LEAVES THE LEVEL OF ADDITIONAL ASSISTANCE TO FURTHER DISCUSSION.

7. AS YOU CAN SEE FROM REF (C), KAISSOUNI OPTED FOR THE LATTER SUGGESTION AND HAS GIVEN US A LETTER IN WHICH NO SPECIFIC AMOUNTS ARE REQUESTED. HOWEVER, HE HAS LET US KNOW THROUGH HUSSEIN THAT HE IS STILL HOPEFUL THAT THE DISCUSSIONS CALLED FOR IN HIS LETTER CAN LEAD TO UNDERSTANDINGS ON A WILLINGNESS TO APPROACH CONGRESS FOR A SUBSTANTIAL AMOUNT OF ADDITIONAL AID, ALTHOUGH HE IS WILLING TO ACCEPT OUR VIEW THAT THE AMOUNT MUST BE CONSIDERABLY BELOW THAT HE HAD EARLIER ANTICIPATED REQUESTING.

8. ON JANUARY 11, FOUAD HUSSEIN DELIVERED TO THE USAID DIRECTOR A PROPOSED LIST OF ADDITIONAL REQUIREMENTS FOR FY 1978. THIS DOES NOT YET INCLUDE ANY SPECIFIC AMOUNTS FOR FY 1979, BUT THE LIST IS INDICATIVE OF THE KINDS OF THINGS WHICH GOE HAS IN MIND. HUSSEIN STATED FLATLY AND CLEARLY THAT THIS REVISED LIST HAD BEEN DISCUSSED

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C O N F I D E N T I A L SECTION 2 OF 2 CAIRO 01217

EXDIS

FOR ASSISTANT SECRETARY ATHERTON FROM AMBASSADOR

AND CLEARED NOT ONLY WITH ECONOMY MINISTER EL SAYEH AND DR.  
KAISSOUNI  
BUT ALSO WITH PRIME MINISTER AND THE PRESIDENT.

9. THERE FOLLOWS THE ITEMS IN THE HUSSEIN LIST WITH OUR COMMENTS:

A. DOLLARS 60 MILLION IN PL 480, FOR IMPORT OF AN ADDITIONAL  
500,000 TONS OF WHEAT TO BRING TOTAL PL 480 FY 1978 PROGRAM TO TWO  
MILLION TONS.

B. DOLLARS 218 MILLION IN ADDITIONAL CIP. IN CALCULATING THIS  
ADDITIONAL AMOUNT, HUSSEIN WAS WORKING FROM AN ASSUMED BASE OF  
DOLLARS 350 MILLION IN THE FY 1978 REGULAR PROGRAM, IN CONTRAST WITH  
THE DOLLARS 250 MILLION IN THE CONGRESSIONAL PRESENTATION AND CUR-  
RENTLY UNDER REVIEW IN WASHINGTON. OF THIS TOTAL, DOLLARS 100  
MILLION IS INTENDED FOR INDUSTRIAL RAW MATERIALS, INTERMEDIATE GOODS  
AND REPLACEMENT CAPITAL EQUIPMENT. DOLLARS 100 MILLION IS FOR FOOD  
AND OTHER AGRICULTURAL COMMODITIES. DOLLARS 18 MILLION IS FOR ROAD  
MAINTENANCE EQUIPMENT.

C. DOLLARS 10 MILLION FOR THE FEASIBILITY STUDY AND ENGINEERING  
COSTS FOR DEVELOPMENT OF AN ADDITIONAL CEMENT FACTORY, PROBABLY TO  
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BE LOCATED AT SOHAG IN UPPER EGYPT. THIS WOULD BE IN ADDITION TO THE SUEZ PLANT CURRENTLY UNDER CONSTRUCTION AND THE PLANT ALREADY SCHEDULED TO BE FINANCED IN FY 1978. THE PRESUMPTION IS THAT ACTUAL CAPITAL COSTS WOULD BE AN ELEMENT OF THE FY 1979 ADDITIONAL ASSISTANCE PACKAGE.

D. DOLLARS 10 MILLION FOR AGRICULTURAL MACHINERY, PRESUMABLY IN THE FORM OF A LARGER PACKAGE UNDER THE PROPOSED AGRICULTURAL MACHINERY PROJECT (A PROJECT WHICH USAID DOES NOT NOW FEEL CAN BE INITIATED PRIOR TO FY 1979).

E. DOLLARS 15 FOR SPECIAL REGIONAL DEVELOPMENT FEASIBILITY STUDIES. THE FIRST OF THESE IS DEVELOPMENT OF THE NORTHWEST COAST, INCLUDING PARTICULARLY WATER AND TRANSPORT ON THE EXPECTATION THAT THESE ARE THE PRIMARY BASES NEEDED FOR PRIVATELY FINANCED TOURISM DEVELOPMENT ALONG THE MEDITERRANEAN COAST. SECOND IS DEVELOPMENT OF CONNECTIONS WITH THE RED SEA, AGAIN PRIMARILY IN TERMS OF WATER AND TRANSPORT AS A BASE FOR PRIVATE TOURISM DEVELOPMENT. THIRD IS DEVELOPMENT OF THE SOUTHWEST PORTION OF EGYPT, BASED ON AGRICULTURAL AND MINERALS DEVELOPMENT. HIS BASIS HERE IS THE FACT THAT AGRICULTURAL MINISTRY OFFICIALS CLAIM THAT THERE ARE ONE TWO MILLION FEDDANS OF HIGH CLASS LANDS IN THE AREA WEST OF THE ASWAN LAKE AND THAT BY PROPER DEVELOPMENT THESE LANDS CAN BE IRRIGATED THROUGH PUMPING FROM THE LAKE ITSELF, AND THAT THIS CAN ALL BE TIED IN TO FURTHER DEVELOPMENT OF MINERALS SUCH AS PHOSPHATES, IRON ORE AND THE LIKE. (NOTE THAT KAISOUNI MADE A STRONG PITCH FOR THIS SOUTHWEST DEVELOPMENT SCHEME IN HIS BRIEFING OF CODEL ZABLOXI.) IT CAN BE ASSUMED THAT ACTUAL INVESTMENT COSTS IN THESE REGIONAL DEVELOPMENT PLANS WOULD BE A PART OF THE PROPOSED FY 1979 ADDITIONAL ASSISTANCE PACKAGE.

F. DOLLARS 77 MILLION FOR WATER AND SEWAGE PROJECTS, WITH  
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EMPHASIS ON EMERGENCY WORK ON IMPROVING CAIRO SEWAGE FACILITIES.

G. DOLLARS 50 MILLION FOR TECHNICAL STUDIES OF PORTS IN THE RED SEA (ABEDIA) AND THE MEDITERRANEAN (PRESUMABLY THE LONG TERM DEVELOPMENT OF DAMIETTA). AGAIN, IT IS PRESUMED THAT GOE WILL WANT 1979 ADDITIONAL ASSISTANCE PACKAGE.

10. SOME OF THE ITEMS IN KAISOUNI'S ORIGINAL DOLLARS 800 MILLION FY 1978 LIST WHICH HAVE BEEN OMITTED FROM THIS REVISED LIST (BUT COULD EVENTUALLY SHOW UP IN THE PROJECTED FY 1979 ADDITIONAL ASSISTANCE PACKAGE) ARE: ADDITIONAL RAILWAY EQUIPMENT; ROAD CONSTRUCTION (NOW CHANGED INTO ROAD MAINTENANCE EQUIPMENT UNDER CIP); ADDITIONAL GRAIN STORAGE, AND DEVELOPMENT OF THE SUEZ FREE ZONE.

11. WE NOW NEED YOUR ADVISE AND GUIDANCE ON HOW BEST TO PROCEED. IT IS CLEAR THAT THE GOE WILL PUSH ON THIS AID REQUEST. FROM WHAT WE HAVE SEEN, AT THIS POINT IN TIME THERE MAY WELL BE CONGRESSIONAL RECEPTIVITY FOR SUCH A REQUEST. OUR MAJOR CONCERN AT THIS STAGE EXPECTATIONS FOR ECONOMIC IMPROVEMENTS AROUSED BY MOVEMENT IN THE PEACE PROCESS, BUT THE REQUESTS THEMSELVES RANGE OVER A VAST AREA OF ACTIVITIES, MANY OF WHICH ARE NECESSARILY VERY LONG TERM IN GESTATION:

IT WOULD SEEM TO US THAT IN THIS INSTANCE THE BULK OF THAT WHICH APPROPRIATION - OUGHT TO BE CIP, WITH PARTICULAR STRESS ON THOSE KINDS OF GOODS WHICH CAN BE SEEN AND FELT DIRECTLY AND IMMEDIATELY BY THE GENERAL PUBLIC - ADDITIONAL BUSES; TRUCKING EQUIPMENT; REFUSE COLLECTION EQUIPMENT; AND SIMILAR ITEMS - PLUS PERHAPS SOME EMERGENCY WORK ON THE CAIRO SEWER SYSTEM (DISCUSSIONS ON THE LATTER ARE ALREADY UNDERWAY BASED ON FEASIBILITY STUDIES CARRIED OUT BY AN ENGLISH FIRM UNDER CONTRACT TO THE MINISTRY OF HOUSING). TO THE EXTENT THAT CAPITAL PROJECTS FINANCING IS INVOLVED, THIS PROBABLY OUGHT TO BE INCLUDED IN AN FY 1979 PACKAGE, WITH SOME FUNDING IN FY 1978 TO PERMIT CARRYING OUT NECESSARY FEASIBILITY STUDIES. WE HAVE SOME IDEAS ON HOW THIS MIGHT ALL BE PACKAGED AND BELIEVE WE SHOULD BE PURSUING THIS WITH THE GOE, BUT DO NOT WANT TO GET TOO MUCH MORE ACTIVELY ENGAGED AT THIS POINT WITHOUT SPECIFIC GUIDANCE  
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FROM YOU ON HOW BEST TO PROCEED, EILTS

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## Message Attributes

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